

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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**Date:** October 27, 2000  
**To:** Board of Governors  
**From:** Edward W. Kelley, Jr.  
**Subject:** Proposed 2001 Fee Schedules for Priced Services

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The Committee on Federal Reserve Bank Affairs has reviewed staff's recommendation that the Board adopt the proposed 2001 fee schedules for priced services and electronic connections. In 2001, the Reserve Banks project that priced services in the aggregate will recover 98.0 percent of their costs, including imputed costs and targeted return on equity. Except for the check and book-entry services, each of the priced services will fully recover all costs.

The check service is projected to recover 97.7 percent of all costs, including imputed costs and targeted return on equity, as it continues to implement its check modernization initiatives. The Reserve Banks expect to recover 100 percent of their check service costs, including those for the check modernization initiatives, over the long run. The book-entry securities service is projected to recover 94.9 percent of its costs due to a change in cost-allocation method that moves more costs into the priced portion of the service. The Reserve Banks expect to recover 100 percent of their book-entry securities costs beginning in 2002 from additional revenue as a result of adding Ginnie Mae securities to the service.

The proposed 2001 fee schedules become effective in January 2001.

The Committee is forwarding the attached staff memorandum to the Board for its consideration.

Attachment

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

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**Date:** October 26, 2000

**To:** Board of Governors

**From:** Jeff Stehm, Erik Kiefel, Larry Lucas, Edith Collis, Susan Foley, Cynthia Yablon, Donna DeCorleto, Michael Lambert, and Paul Grabow

**Subject:** Proposed 2001 Fee Schedules for Priced Services

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### **ACTION REQUESTED**

Staff requests that the Board approve the proposed 2001 fees for priced services and electronic connections shown in attachments I through VII.<sup>1</sup>

### **OVERVIEW**

The Federal Reserve Banks continue to meet the Monetary Control Act's requirement that they recover, over the long run, their direct and indirect costs, including imputed costs and profits, of providing priced services. Over the period 1990 through 1999, the Reserve Banks recovered 99.7 percent of their total costs for providing priced services, including imputed expenses, special project costs that were budgeted for recovery, and targeted after-tax profits, or return on equity (ROE).<sup>2</sup>

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<sup>1</sup> The Federal Reserve Banks' priced services include check, automated clearinghouse (ACH), funds transfer and net settlement, book-entry securities transfer and purchase and sale activity, noncash collection, and special cash. Staff separately forwarded to the Board its recommendations for the 2001 private sector adjustment factor (PSAF).

<sup>2</sup> These imputed costs, such as taxes that would have been paid and the return on capital that would have been earned had the services been provided by a private business, are referred to as the PSAF. The PSAF is based on data developed in part from a model comprising the nation's fifty largest (by asset size) bank holding companies. Based on consolidated financial data for the holding companies in the model for each of the last five years, the targeted ROE is the budgeted after-tax profit that the Federal Reserve would have earned had it been a private business. This ten-year recovery rate is based upon the method used for the *pro forma* income statement for Federal Reserve priced services published in the Board's *Annual Report*. The *pro forma* income statement reflects certain offsets to costs related to the transition to financial accounting standards number 87 (FAS 87) that have not been included in the 1999 repricing *pro forma* in this memorandum. Beginning in 2000, the PSAF includes additional financing costs associated with pension assets used by priced services. This ten-year cost-recovery amount has been computed as if these costs had been historically included in the PSAF calculations. If this modification was not applied to prior

For 2000, the Reserve Banks estimate that they will recover 100.4 percent of the costs of providing priced services. They project a 98.0 percent recovery rate in 2001, largely due to transition costs associated with the check modernization project and the transition to a new cost-allocation method for the book-entry service. The primary risks to the 2001 projection are the Reserve Banks' ability to meet aggressive revenue and cost targets in the check service, due to the impact of the check modernization project; the uncertain effects of price structure and service level changes being implemented for ACH interoperator transactions; and increased competition for ACH and funds transfer services.

In their proposed 2001 fee schedules, the Reserve Banks include changes that continue to provide an economic incentive for depository institution customers to make greater use of electronic payment services. In particular, the price index for electronic payment services (automated clearinghouse, funds transfer and net settlement, book-entry securities, and electronic check) and electronic connections is projected to decline approximately 1.9 percent in 2001. The index for paper-based payment services (check, special cash, and noncash collection) is expected to increase 6.4 percent. The overall 2001 price index for all Federal Reserve priced services is projected to increase 4.2 percent, the same as the increase in 2000. Since 1996, the overall price index has increased only half a percent.<sup>3</sup>

The following are changes in fee structures and levels for priced services in 2001:

- The Reserve Banks propose no changes to fees for the Fedwire funds transfer and national net settlement services. The price index for Fedwire funds transfers has declined more than 46 percent since 1996.

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periods, the ten-year recovery rate would increase to 101.1 percent. The 1999 service line recovery data in this memorandum do not reflect the revisions to the PSAF method in order to provide a more accurate comparison against the targeted return on equity that was used for establishing prices within those services.

<sup>3</sup> These estimates are based on a chained Fisher Ideal price index. This index provides customers with a representation of the total price or cost of Reserve Bank services, offering a more complete picture than is possible solely from comparing changes in individual service fees over time. This index is not adjusted for quality changes in Federal Reserve priced services. Data elements used in calculating the index include explicit fee revenue from priced services products and services and electronic connections to the Reserve Banks, volumes associated with those products and services, and imputed income associated with clearing balances through the Reserve Banks. The price index is calculated using the actual, estimated, or projected full-year revenues and volumes. For 2001, the year-over-year percentage change in the index results from a comparison of the 2001 projections to the 2000 estimates for priced services revenues and volumes. The Reserve Banks delayed implementing the fee changes for 2000 until April to minimize changes for depository institution customers during the period surrounding the century rollover. The 2001 index, therefore, does not directly compare the impact of the prices implemented on April 2000 against the proposed 2001 prices because the 2000 estimate includes revenues and volumes from the first quarter of 2000. The changes in the price index since 1996 are calculated with full-year 2001 projected and 1996 actual revenues and volumes.

- The Reserve Banks propose to increase the surcharge for an off-line Fedwire book-entry securities transfer 39 percent in 2001 to \$25. The fee change is expected to cost customers approximately \$197,000 next year. Other book-entry fees would remain at 2000 levels. Including the fee change for 2001, the price index for the book-entry securities service has declined more than 9 percent since 1996.
- The Reserve Banks are proposing to retain current prices for customers of the FedACH service. The Reserve Banks are initiating discussions with private-sector operators (PSOs) to negotiate deposit deadlines and fees for transactions that they exchange with each other. The new deadlines will be in place no later than June 2001 and the price structure modifications will be implemented no later than September 2001. Since 1996, the price index for the ACH service has decreased almost 49 percent.
- The Reserve Banks propose to increase transaction fees for all check products 2.6 percent compared with current prices or 3.9 percent compared with April 2000 fees. Transaction fees for paper check products are projected to increase 2.6 percent over current prices or 3.9 percent compared to April 2000 fees. Paper check products include forward-processed, fine sort, and returned checks. Reserve Banks are standardizing paper check products and implementing a more consistent pricing structure across the Reserve Banks. Reserve Banks also propose to introduce new prices designed to encourage the accuracy of qualified returned checks and discourage the use of large-dollar checks. Transaction fees for payor bank services, which include electronic check products, will increase 2.9 percent from current prices or 3.7 percent from April 2000 fees. Electronic check products include electronic check presentment, image services, and electronic information. The price index for all check products, which includes imputed fees and other product and service fees not captured in the comparison of the individual transaction fees, is projected to increase 5.9 percent in 2001. The price index for paper check products is increasing 6.3 percent, while that for payor bank and check electronic connection services is decreasing 2.2 percent. Including the fee changes in 2001, the price index for the entire check service has increased almost 23 percent since 1996. Aggregate check service fee increases in 2001 are expected to cost depository institution customers approximately \$50 million, assuming no changes to current customer processing choices.<sup>4</sup>

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<sup>4</sup> The volume-weighted fee calculations for 2001 are based on a comparison of current and April 2000 transaction fees with the proposed 2001 fees for check products, all weighted using the projected 2001 volumes. These volume-weighted calculations summarize changes in specific check product transaction fees while the chained Fisher Ideal price index includes the all-in costs to a customer of purchasing a market basket of Federal Reserve check products. The fees being introduced to encourage the accuracy of qualified returned checks and the greater use of electronic payment systems instead of large dollar checks are not included in the calculation of these transaction fee changes.

## **DISCUSSION**

Table 1 presents an overview of the budgeted 2000, estimated 2000, and projected 2001 cost-recovery performance for all priced services.

Table 1

<b>Priced Services Cost Recovery</b> (percent)			
PRICED SERVICE	2000 BUDGET	2000 ESTIMATE	2001 BUDGET
All Services	99.0	100.4	98.0
Check	98.7	100.3	97.7
ACH	100.0	100.1	100.2
Funds transfer	100.4	100.0	100.1
Book-entry	101.3	102.4	94.9
Noncash collection	108.5	110.8	102.2
Special cash	101.6	103.4	100.6

The aggregate cost-recovery rate is heavily influenced by the check service, which accounts for approximately 83 percent of the total cost of priced services. The electronic services (ACH, Fedwire funds transfer, and Fedwire book-entry securities transfer) account for about 17 percent of costs. The noncash collection and special cash services represent a de minimis proportion of priced services expenses. Figure 1 shows the proportion of 2000 estimated priced services costs attributable to each service.

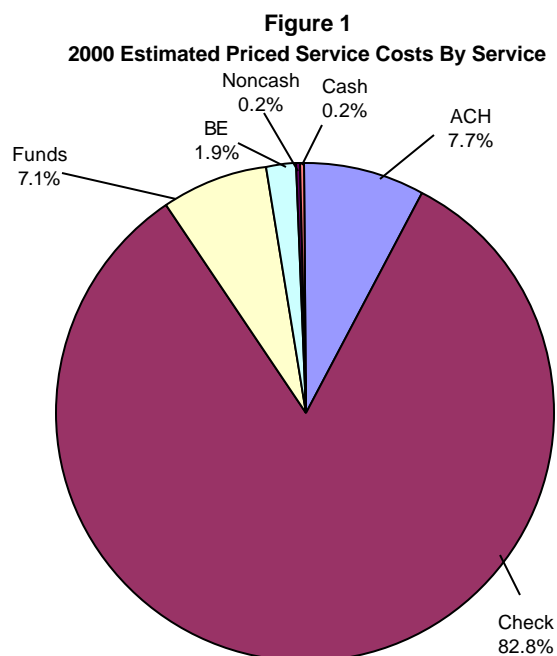


Table 2 summarizes the cost and revenue performance for priced services since 1999.

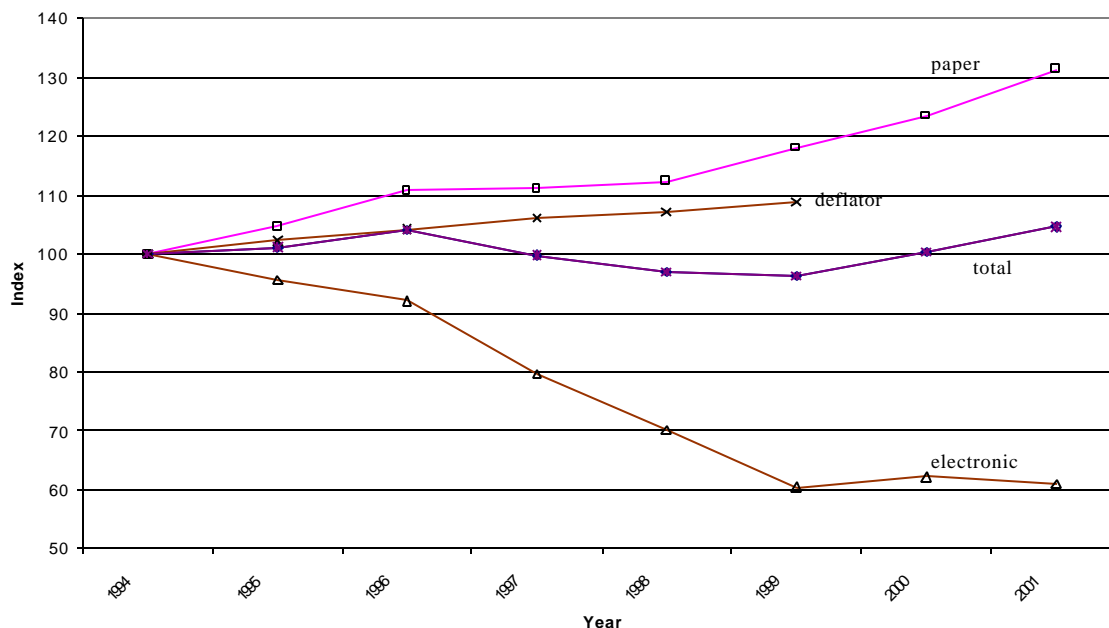
Table 2

<b><i>Pro Forma Cost and Revenue Performance (a)</i></b> (\$ millions)					
YEAR	1 REVENUE (b)	2 TOTAL EXPENSE (c)	3 NET INCOME (ROE) [1-3]	4 TARGET ROE (d)	5 RECOVERY RATE AFTER TARGET ROE [1/(2+4)] (e)
1999	867.6	787.0	80.6	56.0	102.9%
2000 (Estimate)	920.5	818.7	101.7	98.4	100.4%
2001 (Budget)	978.5	889.4	89.1	109.3	98.0%

- a. Calculations on this table and subsequent *pro forma* cost and revenue tables may be affected by rounding.
- b. Includes net income on clearing balances.
- c. The calculation of total expense on this and subsequent *pro forma* cost and revenue tables includes operating expenses and imputed costs plus special project costs recovered during the year. Imputed costs include interest on debt, taxes, FDIC insurance, Board of Governors expenses related to priced services, and the cost of float. Credits for prepaid pension costs under SFAS 87 are also included. In 1999, the book-entry service recovered \$1.7 million in special project costs related to the completion of the automation consolidation project. In 2000, the check service estimates that it will recover fully \$6.3 million in special project costs related to the ongoing check modernization initiative. In 2001, the check service projects that it will recover fully \$15.1 million in special project costs related to check modernization.
- d. Targeted ROE is based on the ROE included in the PSAF and has been adjusted for taxes, which are included in column 2.
- e. If the PSAF method used to calculate the 2000 and 2001 aggregate priced service cost in this table were applied to the actual 1999 calculations, the recovery rate would decline to 100.4 percent.

**2001 Price Index**—The price index for electronic payment services and electronic connections is projected to decline approximately 1.9 percent in 2001 and the index for paper-based payment services is expected to increase 6.4 percent. The overall 2001 price index for Federal Reserve services is projected to increase 4.2 percent, the same as the increase in 2000. The overall 2001 price index has increased half a percent since 1996. The higher overall price index in 2001 is attributable mainly to increased check prices. Figure 2 on the next page compares the Federal Reserve's price index for priced services with the gross domestic product price deflator, which shows that Federal Reserve priced services have historically increased more slowly than the deflator.

**Figure 2**  
**Federal Reserve Price Index**  
 Chained Fisher Ideal index compared with GDP price deflator



The decline in the price index for electronic payment services since 1996 has reflected, in large part, the ability of the Reserve Banks to capitalize on the operational efficiencies and scale economies inherent in providing payment services through centralized electronic payment processing applications. Between 1992 and 1998, the Reserve Banks' automated data processing facilities were consolidated into three sites, significantly reducing the cost of providing electronic payment services.

**Allocation of Corporate Overhead Costs to Priced Services** — Corporate overhead costs are allocated to priced services in total and to other Reserve Bank activities based on their proportion of total Reserve Bank costs (expense-ratio basis). Because corporate overhead costs are not closely related to any particular priced service, the priced services portion of these costs are assigned among the individual services to facilitate the funding of significant multiyear strategic investments that would otherwise result in short-term price fluctuations,

subject to established minimum and maximum amounts.<sup>5</sup> To a small extent in 1999, the Reserve Banks assigned these costs among priced services to accelerate the retirement of debt associated with the automation consolidation special project. In 2000, the assignment of corporate overhead costs to individual priced services supported the Reserve Banks' strategic check modernization project. In 2001, the overhead costs will be assigned along the traditional expense-ratio basis. Table 3 shows the assignment of corporate overhead costs for the years 1999-2001.

Table 3

<b>Corporate Overhead Allocations to Priced Services</b> (\$ millions)							
YEAR	CHECK	ACH	FUNDS TRANSFER	BOOK- ENTRY	NONCASH COLLECTION	SPECIAL CASH	TOTAL
1999 Actual	38.8	3.7	6.0	0.0	0.1	0.2	48.8
2000 (Estimate)	55.6	2.4	3.1	0.8	0.1	0.1	62.1
2001 (Budget)	45.1	4.2	2.9	1.1	0.1	0.1	53.5

**2001 Projected Performance** — The Reserve Banks project that they will recover 98.0 percent of total expenses related to priced services, including imputed expenses and targeted ROE, in 2001. The proposed 2001 fees for priced services will result in a net income of \$89.1 million, compared with a targeted ROE of \$109.3 million. The check service will recover fully the approximately \$15.1 million of 2001 priced services costs associated with the check modernization special project.

**2000 Estimated Performance** — The Reserve Banks estimate that priced services will yield a net income of \$101.7 million in 2000, compared with a targeted ROE of \$98.4 million. In 2000, the Reserve Banks estimate that they will recover 100.4 percent of the costs of providing priced services, including imputed expenses, all check modernization special project costs, and targeted ROE, compared with a targeted recovery rate of 99.0 percent.<sup>6</sup>

<sup>5</sup> Under the new Reserve Bank cost accounting method, corporate overhead costs for 2001 include all of the following activities: corporate administration functions, budget preparation and control, expense accounting, and general ledger accounting. Corporate overhead costs for 1999 and 2000 also included all or a portion of central mail operations, legal, records management and contingency planning, motor vehicles, and audit, which have now become support costs.

<sup>6</sup> Through August 2000, the Reserve Banks recovered 101.5 percent of total priced services expenses, including imputed expenses, check modernization special project costs, and targeted ROE.



**1999 Performance** — In 1999, the Reserve Banks' priced services revenue yielded a net income of \$80.6 million, compared with a targeted ROE of \$56.0 million. The Reserve Banks recovered 102.9 percent of total expenses, including imputed expenses, automation consolidation special project costs budgeted for recovery, and targeted ROE, compared with a targeted recovery rate of 101.0 percent. The Reserve Banks recovered a larger-than-expected percentage of costs because of higher volumes, midyear increases in check prices, and increased pension credits.

In 1999, the Reserve Banks completed their recovery of transition costs associated with the automation consolidation project (special project costs) and associated financing costs. In addition to facilitating fee reductions in electronic payment services, the consolidation initiative has dramatically improved the Reserve Banks' disaster recovery and information security capabilities, increased the System's responsiveness to change, and enhanced the central bank's management of payment system risk.

### **Analysis of Competitive Effect**

All operational and legal changes considered by the Board that have a substantial effect on payment system participants are subject to the competitive impact analysis described in the March 1990 policy statement "The Federal Reserve in the Payments System."<sup>7</sup> Under this policy, staff assesses whether the proposed change would have a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services because of differing legal powers or constraints or because of a dominant market position of the Federal Reserve deriving from such legal differences. If the fees or fee structures create such an effect, staff must further evaluate the changes to assess whether their benefits — such as contributions to payment system efficiency, payment system integrity, or other Board objectives — can be retained while reducing the hindrances to competition.

Staff does not believe that the proposed fees and fee structures will have a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services. Assuming the Reserve Banks' volume and cost projections are accurate, the proposed fees are set to provide the Federal Reserve a return on

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<sup>7</sup> FRRS 7-145.2.

equity similar to that earned by large bank holding companies and provide for full cost recovery over the long run.

**RECOMMENDATION**

Staff recommends that the Board approve the 2001 fee schedules for priced services and electronic connections, which are included in attachments I to VII, and the check service fee supplement (which is available upon request). The 2001 fee changes are reflected in boldface type on the fee schedules in attachments I to VII.

**Attachments**  
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## Attachment I

### Check

Table 1 presents the actual 1999, estimated 2000, and projected 2001 cost-recovery performance for the check service.

Table 1

<b>Check Pro Forma Cost and Revenue Performance</b> (\$ millions)					
YEAR	1 REVENUE	2 TOTAL EXPENSE	3 NET INCOME (ROE) [1-2]	4 TARGET ROE	5 RECOVERY RATE AFTER TARGET ROE [1/(2+4)]
1999	707.3	649.8	57.5	45.1	101.8%
2000 (Estimate)	762.2	678.9	83.3	80.8	100.3%
2001 (Budget)	816.1	745.2	70.9	90.3	97.7%

**1999 Performance** — The check service recovered 101.8 percent of total costs in 1999, including imputed expenses and targeted ROE. Higher-than-anticipated volume growth at most Reserve Banks and midyear price increases helped actual cost recovery to exceed the targeted rate of 101.0 percent. The volume of checks collected increased 3.0 percent from 1998 levels because of several factors, including the increased reliance on Reserve Bank check processing by some banks during merger-related operational changes and the introduction of new check products.

**2000 Performance** — Through August 2000, the check service has recovered 101.0 percent of total costs, including imputed expenses and targeted ROE.<sup>1</sup> The Reserve Banks estimate that the check service will recover 100.3 percent of its costs for the full year compared with the targeted 2000 recovery rate of 98.7 percent. The higher recovery rate is due to improved cost controls implemented by Reserve Banks, midyear price increases at a number of Reserve Banks, and increased pension credits.

Volume growth within paper check products through August 2000 has varied from the original budget projections. Growth of forward-processed items slowed substantially from the 1999 pace as some merger and acquisition volumes that were outsourced to the Reserve

<sup>1</sup> Total costs include special project costs of \$15.1 million. None of those costs are deferred and financed.

Banks reverted back to the merged institutions' processing platforms. Return-item volume has been higher than anticipated Systemwide as several correspondents have stopped providing return-check services. Table 2 summarizes the year-to-date and full-year estimated growth rates for all paper check products.

Table 2

<b>Paper Check Product Growth Rates</b> (percent)			
	BUDGETED 2000 GROWTH	VOLUME GROWTH THROUGH AUGUST 2000	ESTIMATED 2000 GROWTH
Total forward-collected	4.5	0.7	1.9
Forward-processed	4.7	2.4	3.0
Fine-sort (a)	2.6	-10.2	-9.3
Returns	-2.3	1.3	-1.6

a. Electronic fine-sort volume is excluded from these numbers. Electronic fine-sort is a service that allows depository institutions to exchange fine-sort information electronically among themselves while also exchanging the actual checks. Including the electronic fine-sort product offered at one Reserve Bank, budgeted 2000 fine-sort volume growth is actually targeted to decrease 1.6 percent, with the estimated 2000 volume growth decreasing 14.2 percent.

Staff considers the Reserve Banks' 2000 volume estimates for forward-processed items to be reasonable. Staff believes, based upon year-to-date trends, that return-volume growth may be understated.

Continuing a trend over the last few years, the Reserve Banks have seen steadily increasing demand for electronic check products. Reserve Banks provide electronic check data or images provided to paying bank for about 35 percent of checks they collect. Year-to-date 2000 demand for image products has grown to approximately 800 million items, or 7 percent of checks collected by the Reserve Banks in 2000. Growth and penetration rates for electronic check products are summarized in table 3. Given the current volume growth through August, staff believes that Reserve Banks are underestimating demand for electronic check services.

Table 3

<b>Electronic Check Product Penetration and Growth Rates</b> (percent of checks collected)			
	PENETRATION RATE THROUGH AUGUST 2000	YEAR-OVER-YEAR GROWTH THROUGH AUGUST 2000	ESTIMATED 2000 GROWTH
Electronic check presentment	20.6	10.2	5.6
Truncation	5.4	9.8	4.5
Non-truncation	15.2	10.4	6.0
Electronic check information	7.3	-7.4	-11.9
Images	6.9	46.2	34.8

**2001 Pricing** — For the coming year, the Reserve Banks will focus on the check modernization initiatives to standardized check processing across all Reserve offices. Staff expects the Reserve Banks to incur significant transition costs associated with these initiatives over the next several years. These initiatives include

- Check standardization - implement a standard, centrally managed, check-processing environment at all Reserve Banks
- Enterprise-wide adjustments - implement a standard, centrally managed, enterprise-wide adjustments system at all offices
- Image services system - redesign the current image-processing infrastructure based on a standard, centrally managed, single platform
- Electronic access and delivery - design and execute a strategy to provide customers with remote electronic access and delivery of check services over the Internet.

The check modernization initiatives are expected to reduce costs and improve service over the long term. This effort will lead to better quality and more technologically advanced products and services for customers, greater flexibility and responsiveness to customer needs and requirements, and more consistent price and product structures across the Reserve Banks. Ultimately, the efficiencies gained through the modernization initiatives should create cost savings that can be passed along to customers in the form of lower or stable prices.

In 2001, per-item and cash-letter fees for all check products are increasing 3.9 percent on a volume-weighted basis compared to fees introduced in April 2000 and 2.6 percent compared with current fees. Per-item and cash-letter fees for paper-based check products are increasing at about the same rate. This increase was driven by price adjustments for both forward and return products. On a volume-weighted basis, the average per-item and fixed fees for payor bank services will increase 3.7 percent compared with April 2000 fees and 2.9 percent compared with current fees. Table 4 provides details on the 2000 price changes.

Table 4

<b>2001 Price Changes</b> (percent)		
PRODUCTS	2001 VS. APRIL 3, 2000 Fees	2001 VS. CURRENT 2000 FEES
All check products	3.9	2.6
Total paper products	3.9	2.6
Forward-processed	3.6	2.5
Fine-sort	7.0	5.1
Returns	3.7	2.9
Payor bank services	3.7	2.9
Electronic check presentment	0.4	0.1

Table 5 summarizes ranges of key check fees for 2001.

Table 5

<b>Selected Check Fees</b>				
Items:	2000 PRICE RANGES		2001 PRICE RANGES	
	(PER ITEM)		(PER ITEM)	
Forward-processed				
City	\$0.004 to 0.081		<b>\$0.005 to 0.079</b>	
RCPC	\$0.004 to 0.180		<b>\$0.004 to 0.200</b>	
Forward fine-sort				
City	\$0.004 to 0.015		<b>\$0.005 to 0.020</b>	
RCPC	\$0.0025 to 0.018		<b>\$0.004 to 0.019</b>	
Qualified returned checks				
City	\$0.17 to 1.11		<b>\$0.17 to 1.10</b>	
RCPC	\$0.21 to 1.75		<b>\$0.21 to 1.50</b>	
Raw returned checks				
City	\$1.00 to 5.50		\$1.00 to 5.50	
RCPC	\$1.00 to 5.50		<b>\$1.00 to 5.55</b>	
Cash letters:	(PER CASH LETTER)		(PER CASH LETTER)	
Forward-processed (a)	\$1.75 to 9.25		<b>\$2.00 to 13.50</b>	
Forward fine-sort	\$3.00 to 14.00		\$3.00 to 14.00	
Returned checks: raw/qualified	\$1.75 to 14.00		\$1.75 to 14.00	
Payor bank services:	(MIN.)	(PER ITEM)	(FIXED)	(PER ITEM)
MICR information	\$5-\$30	\$0.001-0.0060	<b>\$2-\$15</b>	<b>\$0.0012-0.0060</b>
Electronic presentment	\$3-\$14	\$0.001-0.0045	<b>\$2-\$11</b>	<b>\$0.0010-0.0100</b>
Truncation	\$3-\$25	\$0.004-0.0170	<b>\$2-\$10</b>	<b>\$0.0060-0.0180</b>
Image			<b>\$2-\$15</b>	<b>\$0.0020-0.0200</b>

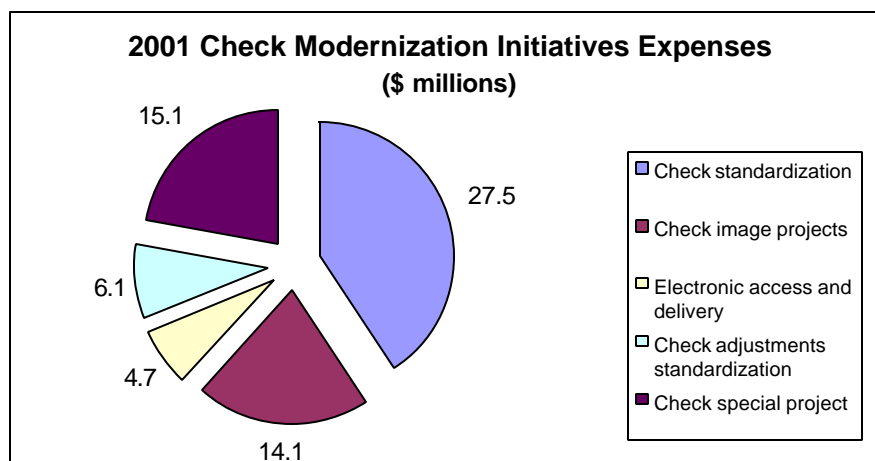
a. Includes a fifty-cent check-relay surcharge due to higher fuel costs. Both bounds of the price range would decrease \$0.50 if this surcharge were not included.

The Reserve Banks propose to adopt several pricing strategies that are designed to increase the efficiency of Reserve Bank operations, improve the quality of return-check deposits, and reduce the risk associated with the check payments system. In turn, these improvements will

decrease the costs associated with processing payments, and the savings will ultimately be passed along to customers in the form of lower transaction fees. Specifically, the Reserve Banks will price for certain categories of return item exceptions that can be identified in Reserve Bank processing operations. The Reserve Banks also will charge for processing commercial checks with a value of \$10 million or more to depositing customers. It is expected that this charge will encourage customers to use electronic payment systems, such as funds transfer and the automated clearinghouse, for large-dollar payments. These prices will be introduced during the second quarter of 2001.

For 2001, the Reserve Banks project that the check service will recover 97.7 percent of total costs, including imputed expenses, costs associated with the check automation standardization special project, and targeted ROE. Total expenses are projected to increase approximately \$66.3 million, or 9.9 percent, from estimated 2000 expenses. Total expenses for 2001 include approximately \$67.6 million for the four check modernization projects and a special project for related extraordinary expenses, a total increase of \$44 million over the 2000 estimate. Graph 1 provides a breakdown of these costs in 2001.

Graph 1



The check service is projected to have revenue in 2001 of \$816.1 million from forward collection and return-item processing (81.4 percent), payor bank services (10.8 percent), and other operating and imputed revenues (7.8 percent). Total revenue is expected to increase approximately \$53.9 million, or 7.1 percent, in 2001 as a result of increased service revenue (\$53.4 million). The 2001 cost-recovery projections include \$13.7 million in revenue from the



fees being introduced to encourage the accuracy of qualified returned checks and the greater use of electronic payment systems instead of large dollar checks.

In 2001, forward-processed volume is projected to be 15.5 billion, an increase of 1.6 percent compared with the 2000 estimate. Fine-sort volumes, without electronic fine-sort, are estimated to be 1.3 billion or 5.2 percent less than the 2000 estimate. Fine-sort volumes including electronic fine-sort are estimated to be 2.0 billion or 3.5 percent less than the 2000 estimate. Total returns are projected to be 175.8 million, an increase of 0.5 percent from the 2000 estimate.

MICR presentment and MICR presentment plus volume is projected to be 2.9 billion, reflecting growth of about 17 percent in 2001. Truncation volume is expected to be 987.0 million, an increase of almost 10 percent, and image services volume is budgeted to be 1.5 billion, reflecting growth of nearly 27 percent in 2001. MICR information is projected to decrease by 1.0 billion items or about 13 percent in 2001.

Staff believes that the costs of check modernization initiatives present the greatest risk to the cost projections for the check service. In particular, staffing costs may be greater than anticipated given the competitive labor markets that exist nationwide. Further, operational costs, productivity, and service quality are at risk if there are slippages in the transition schedules or unanticipated increases in the costs for the modernization initiatives.

**Attachment II**  
**Automated Clearing House (ACH)**

Table 1 presents the actual 1999, estimated 2000, and projected 2001 cost-recovery performance for the commercial ACH service.

Table 1

<b>ACH Pro Forma Cost and Revenue Performance</b> (\$ millions)					
YEAR	1 REVENUE	2 TOTAL EXPENSE	3 NET INCOME (ROE) [1-2]	4 TARGET ROE	5 RECOVERY RATE AFTER TARGET ROE [1/(2+4)]
1999	67.8	55.9	11.9	4.5	112.3%
2000 (Estimate)	70.5	61.4	9.1	8.0	101.6%
2001 (Budget)	75.5	66.4	9.1	8.9	100.2%

**1999 Performance** — The ACH service recovered 112.3 percent of total expenses, including imputed expenses and targeted ROE, in 1999. Commercial ACH volume was 12.5 percent higher than 1998 volume, slightly greater than the 12.0 percent increase originally projected for 1999. During the year, ACH lowered all origination fees by \$0.0005.

**2000 Performance** — Through August 2000, the ACH service recovered 103.4 percent of total expenses, including imputed expenses and targeted ROE. For the full year, Reserve Banks estimate that the service will recover 101.6 percent of total expenses compared with the targeted 2000 recovery rate of 100.0 percent. The estimated over-recovery is due to lower total expenses of 1.4 percent, which was caused by a reduction in national support costs. The increase in total expenses since 1999 is mainly attributable to ACH's assuming a larger allocation of joint priced corporate overhead to support the check modernization initiatives.

Through August 2000, commercial ACH volume has increased 13.5 percent from the same period in 1999. For the full year, Reserve Banks expect commercial volume to increase 11.6 percent compared with the 13.9 percent increase originally projected for 2000. The Reserve Banks cite consolidation in the financial services industry as a partial driver for the lower-than-expected volumes and anticipate further volume reductions as competitive pressures increase. Staff questions whether the significantly slower growth rate that is expected through

year-end reasonably reflects the effect of these competitive pressures. Staff believes that the expected growth rate may be understated.

**2001 Pricing** —The Board recently approved modifications to the Reserve Banks' deposit deadlines and pricing practices for transactions they exchange with private sector operators (PSOs). The Reserve Banks are working collaboratively with ACH operators to establish interoperator deposit deadlines by which the Reserve Banks and the PSOs would exchange interoperator transactions. Further, the Reserve Banks are initiating discussions with the PSOs to negotiate the structure and level of fees that will be charged by the Reserve Banks as well as those fees that the Reserve Banks will pay the PSOs. The new deadlines and price structure for PSOs are intended to address the competitive concerns that have been raised by industry representatives. The new deadlines will be implemented no later than June 2001 and that the price structure modifications will be implemented no later than September 2001. The specific implementation date for each of these modifications will be announced well in advance of the effective dates. The Reserve Banks will also assess a monthly settlement fee of \$20 (per routing number) rather than the current monthly account servicing fee to depository institutions that send and receive all their transactions to and from the Reserve Banks through PSOs. The Reserve Banks no longer plan to assess origination or receipt fees directly to these depository institutions. Additionally, the Reserve Banks will charge ACH operators half the published electronic connection fee to reflect the use of the connection by both ACH operators and the Reserve Banks to send each other interoperator transactions. These changes will only apply to any intermediary that is defined as an operator under National Automated Clearing House Association (NACHA) rules. The Reserve Banks propose to retain the 2001 ACH prices at the current levels, except for the changes for interoperator transactions.

The Reserve Banks project that the ACH service will recover 100.2 percent of its costs in 2001, including imputed expenses and targeted ROE. Total expenses are projected to increase \$5.9 million, or 8.5 percent, from the 2000 estimate because of growth in support and overhead costs, particularly those related to business development. Total revenue in 2001 is projected to increase \$4.9 million, or 7.0 percent more than the 2000 estimate. The higher revenue is attributable to projected commercial volume growth and increased revenue from electronic connections, offset somewhat by lost revenue from the new pricing of interoperator transactions.

ACH volume in 2001 is projected to increase 12.1 percent from 2000 estimates. The 2001 volume projection assumes a rate of growth between the 12.5 percent experienced in 1999 and expected growth in 2000, which is estimated at 11.6 percent. This growth rate, revenues, and cost recovery, however, do not account for several risks in 2001. The major risks include the uncertain effects of price structure and service level changes being implemented for interoperator transactions, the increased competitive pressures from PSOs, and future consolidations in the financial services industry. Staff believes that a 12.1 percent growth rate may be difficult to achieve because this rate may not fully reflect these risks.

**Federal Reserve**  
**AUTOMATED CLEARING HOUSE FEE SCHEDULE<sup>1</sup>**  
**EFFECTIVE JANUARY 2, 2001**

Origination (per item or record) <sup>2</sup> :	<u>Fees</u>
Items in small files	\$0.0055
Items in large files	\$0.0045
Addenda record	\$0.0020
Receipt (per item or record):	
Item	\$0.007
Addenda record	\$0.002
Input file processing fees (per file):	
Small file	\$1.75
Large file	\$6.75
Monthly fees:	
Account servicing fee (per routing number)	\$25.00
Information extract file	\$10.00
Return item/notification of change (NOC) fees <sup>3</sup> :	
Voice response return/NOC <sup>4</sup>	\$2.00
Nonelectronic input/output fees <sup>5</sup> :	
Tape input/output	\$25.00
Paper output	\$15.00
Diskette output	\$15.00
Facsimile return/NOC <sup>6</sup>	\$15.00
Cross-Border fees	
Cross-border item	\$0.037
Same-day recall of item at receiving gateway operator	\$3.50
Same-day recall of item not at receiving gateway operator	\$5.00
Item trace	\$5.00
Microfiche	\$3.00
Delivery by courier <sup>7</sup>	\$10.00

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<sup>1</sup> This fee schedule does not reflect the price changes for interoperator transactions.

<sup>2</sup> Small files contain fewer than 2,500 items and large files contain 2,500 or more items.

<sup>3</sup> The Reserve Banks also assess a \$15 fee for every government paper return/NOC they process. This service is not considered a priced service. The fee includes the transaction fee in addition to the conversion fee.

<sup>4</sup> The fee includes the transaction fee in addition to the voice-response fee.

<sup>5</sup> These services are offered in contingency situations only.

<sup>6</sup> The fee includes the transaction fee in addition to the conversion fee.

<sup>7</sup> The courier charge is in addition to the fee charged by the Reserve Banks.

### Attachment III

#### Funds Transfer and Net Settlement

Table 1 presents the actual 1999, estimated 2000, and projected 2001 cost-recovery performance for the funds transfer and net settlement services.

Table 1

<b>Funds Transfer and Net Settlement <i>Pro Forma</i> Cost and Revenue Performance</b> (\$ millions)					
YEAR	1 REVENUE	2 TOTAL EXPENSE	3 NET INCOME (ROE) [1-2]	4 TARGET ROE	5 RECOVERY RATE AFTER TARGET ROE [1/(2+4)]
1999	69.2	61.3	7.8	5.2	104.0%
2000 (Estimate)	65.1	57.6	7.5	7.5	100.0%
2001 (Budget)	63.1	55.6	7.5	7.5	100.1%

**1999 Performance** — For 1999, the funds transfer and net settlement services recovered 104.0 percent of total costs, including imputed expenses and targeted ROE, compared with a targeted recovery rate of 102.0 percent. This over-recovery was primarily due to expenses \$3.2 million (4.5 percent) less than original budget projections resulting from an 11.2 percent and a 3.2 percent decrease in direct and support costs, respectively. Service revenue for 1999 was approximately \$1.8 million (2.6 percent) less than original budget projections. A \$0.9 million (27.7 percent) decrease in net income on clearing balances accounted for almost half of the deficit. In addition, electronic connection revenue was \$0.6 million (6.2 percent) lower than anticipated due to fewer than anticipated customers signing on to services related to electronic access. The rest of the revenue shortfall was due to lower-than-anticipated volume in the highest-priced (low-volume) tier. Funds transfer volume increased 4.7 percent from the 1998 level compared with a budgeted 5.8 percent growth.

**2000 Performance** — Through August 2000, the funds transfer and net settlement services recovered 103.9 percent of total costs, including imputed expenses and targeted ROE. For full-year 2000, the Reserve Banks estimate that the funds transfer and net settlement services will recover 100.0 percent of total expenses, compared with a targeted recovery rate of 100.4 percent. Staff believes the Reserve Banks' estimated 2000 cost recovery is too low given year-to-date experience.

Funds transfer volume through August 2000 has increased 6.5 percent relative to the same period in 1999. For the full year, the Reserve Banks estimate a 5.7 percent volume increase compared with a budgeted increase of 6.0 percent.

**2001 Funds Transfer Pricing** — The Reserve Banks propose retaining the current per-transfer fees and thresholds for volume-based discounts. The average (volume-weighted) per-transfer price would be \$0.223. In addition, the Reserve Banks propose retaining the off-line surcharge at its current level.

Reserve Banks project that the Fedwire funds transfer service will recover 100.1 percent of total costs, including imputed expenses and targeted ROE, in 2001. Total costs are expected to decline \$2.0 million (3.1 percent) from the 2000 estimate, primarily due to reduced operating costs of \$1.4 million (2.4 percent) and a decrease in PSAF costs of \$0.5 million (3.6 percent). The reduction in operating costs is mainly due to staff reductions.

Funds transfer volume is expected to decrease 1.2 percent from 2000 estimated levels, due primarily to potential shifts in volume to CHIPS. In first quarter 2001, CHIPS will introduce a new intraday finality service that will provide more risk controls and thus reduce the impediments to the use of CHIPS for some payments that are currently processed via Fedwire. The Reserve Banks anticipate a 3.0 percent decline in funds transfer volume from high-volume customers that are also CHIPS participants, partially offset by increases in volume from middle-tier customers. Revenue is projected to decline \$2.0 million (3.1 percent) in 2001 compared with the 2000 estimate due to slightly lower 2001 volume combined with the full-year effects of the April 2000 on-line fee reductions.

**2001 Net Settlement Pricing** — The Reserve Banks propose retaining the local and enhanced net settlement fees at the 2000 price levels. The enhanced net settlement service will be fully implemented during 2001 as local settlement services are phased out by year-end.

**FEDERAL RESERVE  
FUNDS TRANSFER AND NET SETTLEMENT FEE SCHEDULE**

**EFFECTIVE JANUARY 2, 2001**

Funds transfer:	<u>Fees</u>
Volume-based pricing fees (originations and receipts)	
Per transfer for the first 2,500 transfers per month	\$0.33
Per transfer for additional transfers up to 80,000 per month	\$0.24
Per transfer for every transfer over 80,000 per month	\$0.17
Surcharge	
Off-line transfer originated	\$15.00
Telephone notification	\$15.00
Net settlement:	
Basic fee (settlement sheet and enhanced NSS)	
Settlement charge per entry	\$0.95
Settlement file charge	\$12.00
Surcharge	
Off-line origination per file <sup>1</sup> (settlement sheet)	\$15.00
Telephone notification per file (settlement sheet and enhanced NSS)	\$15.00
Minimum monthly fee	\$60.00
Fedwire-based, small-dollar arrangement per settlement day <sup>2</sup>	\$100.00
Fedwire-based, large-dollar arrangement per settlement day <sup>2</sup>	\$100.00 - \$175.00

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<sup>1</sup> The off-line origination surcharge will be waived by Reserve Banks that do not provide an electronic submission capability for the settlement sheet service.

<sup>2</sup> Participants in arrangements and settlement agents are also charged the applicable Fedwire funds transfer fee for each transfer into and out of the settlement account.



**Attachment IV**  
**Book-Entry Securities<sup>1</sup>**

Table 1 presents the actual 1999, estimated 2000, and projected 2001 cost-recovery performance for the book-entry securities service.<sup>2</sup>

Table 1

<b>Book-Entry Securities Transfer <i>Pro Forma</i> Cost and Revenue Performance</b> (\$ millions)					
YEAR	1 REVENUE	2 TOTAL EXPENSE	3 NET INCOME (ROE) [1-2]	4 TARGET ROE	5 RECOVERY RATE AFTER TARGET ROE [1/(2+4)]
1999	17.3	15.1	2.2	1.0	107.4%
2000 (Estimate)	18.0	15.7	2.3	1.9	102.4%
2001 (Budget)	19.9	18.6	1.3	2.3	94.9%

**1999 Performance** — The book-entry securities service recovered 107.4 percent of total costs in 1999, including imputed expenses, automation consolidation special project costs budgeted for recovery, and targeted ROE, compared with a target recovery rate of 105.2 percent.<sup>3</sup> Service revenue for 1999 was approximately \$650,000 (3.9 percent) greater than original budget projections. Origination volume increased 0.6 percent from the 1998 level, compared with an expected decrease of 5.7 percent. The increase in volume resulted from a general increase in mortgage debt refinancing and a higher-than-expected issuance of mortgage-backed securities.

**2000 Performance** — Through August 2000, the book-entry securities service recovered 106.4 percent of total costs, including imputed expenses and targeted ROE. For full-year 2000, the Reserve Banks estimate that the book-entry securities service will recover 102.4 percent of total costs, compared with a targeted recovery rate of 101.3 percent. This higher-than-

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<sup>1</sup> Includes purchase and sale activity.

<sup>2</sup> The Reserve Banks provide securities transfer services for securities issued by the U.S. Treasury Department, federal government agencies, government-sponsored enterprises, and certain international institutions. The priced component of this service, reflected in this memorandum, consists of revenues, expenses, and volumes associated with the transfer of all non-Treasury securities. For Treasury securities, the Treasury Department assesses fees for the securities transfer component of the service. The Reserve Banks assess a fee for the money settlement component of a Treasury securities transfer; this component is not treated as a priced service.

<sup>3</sup> In 1999, the book-entry service recovered the last \$1.7 million remaining from the Reserve Banks' automation consolidation special project. All costs associated with this special project have now been fully recovered.

budgeted recovery rate reflects revenue that is 6.1 percent greater than budget. The increase in revenue is due to higher-than-expected volumes.

Book-entry securities transfer volume has increased 7.5 percent from February 2000 to August 2000 compared with the same period in 1999.<sup>4</sup> The full-year growth rate for origination volume is expected to be 4.8 percent more than actual 1999 volumes, compared with the flat projections originally forecast at the beginning of the year. Like the increase in 1999, this volume increase is due to an increase in mortgage debt refinancing and greater use of agency securities as a hedge against other investment risks.

**2001 Pricing** — Except as noted below, the Reserve Banks propose retaining all fees in 2001 at their current levels. They recommend a \$7 increase to the off-line surcharge to originate and receive a transfer, to \$25, to better reflect the costs of providing off-line transfers for book-entry securities.

The purchase and sale service represents less than 1 percent of the costs and revenues of the book-entry securities service line. Provision of this service, which facilitates the purchase and sale of Treasury and government agency securities by depository institutions on the secondary market, is consolidated at the Federal Reserve Bank of Chicago. The Reserve Banks propose maintaining the \$40 transaction fee for securities purchases and sales.

The Reserve Banks project that the book-entry securities service will recover 94.9 percent of costs in 2001, including imputed expenses and targeted ROE. Excluding target ROE, expenses are projected to increase \$2.9 million (18.3 percent) from the 2000 estimate. This is primarily due to the implementation of the new book-entry cost allocation model that will shift more costs to the priced portion of the service.

Book-entry securities transfer volume is projected to increase 8.9 percent compared to the 2000 estimate. The 18.3 percent increase in total book-entry expenses is expected to be partially offset by a \$1.8 million (10.2 percent) increase in revenue from the projected start of the conversion of Government National Mortgage Association (Ginnie Mae) securities to the National Book-Entry System (NBES) during the fourth quarter of 2001.

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<sup>4</sup> Prior to February 1999, the Federal Reserve did not charge customers for book-entry receipts. Therefore, the volume data before February 1999 includes only originations whereas the data after February 1999 includes both originations and receipts. A comparison of volumes using January 1999 data would skew the results.

Full recovery under the new cost allocation approach is expected in 2002 when the conversion of Ginnie Mae to NBES has been completed.

**FEDERAL RESERVE**  
**BOOK-ENTRY SECURITIES FEE SCHEDULE**

**EFFECTIVE JANUARY 2, 2001**

Book-entry securities transfer:	<u>Fees</u>
Basic transfer fee	
Transfer originated	\$0.70
Transfer received	\$0.70
Reversal originated	\$0.70
Reversal received	\$0.70
Surcharge	
Off-line transfer originated or received	<b>\$25.00</b>
Off-line reversal originated or received	<b>\$25.00</b>
Monthly maintenance fees	
Account maintenance (per account)	\$15.00
Issues maintained (per issue/per account)	\$0.45
Purchase & sale:	
Transaction fee	\$40.00

## Attachment V

### Noncash Collection

Table 1 lists the actual 1999, estimated 2000, and projected 2001 cost-recovery performance for the noncash collection service.

Table 1

<b>Noncash Collection <i>Pro Forma</i> Cost and Revenue Performance</b> (\$ millions)					
YEAR	1 REVENUE	2 TOTAL EXPENSE	3 NET INCOME (ROE) [1-2]	4 TARGET ROE	5 RECOVERY RATE AFTER TARGET ROE [1/(2+4)]
1999	3.0	2.0	1.0	0.1	140.3%
2000 (Estimate)	2.4	2.0	0.4	0.2	110.8%
2001 (Budget)	2.0	1.7	0.2	0.2	102.2%

**1999 Performance** — The noncash collection service recovered 140.3 percent of total expenses in 1999 (including imputed expenses and targeted ROE) compared with a target recovery rate of 118.6 percent. Volume for 1999 decreased 18.8 percent from 1998 levels compared with a 26.6 percent budgeted volume decline. The volume decline was less than budgeted levels because of both unexpected called-bond activity and higher-than-expected coupon volume.

**2000 Performance** — Through August 2000, the noncash collection service recovered 119.3 percent of its costs. For full-year 2000, the Reserve Banks estimate that the noncash collection service will recover 110.8 percent of costs, including imputed expenses and targeted ROE, compared with the targeted recovery rate of 108.5 percent. Through August, volume declined 15 percent compared with the same period in 1999, while the overall industry experienced a volume decline of 18 to 20 percent for the same period. The Reserve Banks estimate that full-year 2000 volume will decline 17.1 percent from 1999 levels compared with a 31.5 percent budgeted decline. Volume decline is expected to be lower than budgeted in part because the service received unexpected volume from existing and new customers as well as higher-than-budgeted bond collections from called and maturing securities. The estimated volume decline for the year is slightly greater than the actual decline for the first eight months of

the year because of the recent withdrawal of volume by the System's largest depositor of noncash items.

**2001 Pricing** — The Reserve Banks propose increasing one fee relative to 2000 fee levels. Specifically, the Reserve Banks propose increasing the return-item fee from \$15 to \$20 for items that are returned to the depositor as uncollected. The Reserve Banks project that the noncash collection service will recover 102.2 percent of total costs, including imputed expenses and targeted ROE, in 2001.

Total expenses are projected to decline approximately \$0.2 million, or 10.8 percent, in 2001. Despite the higher proposed return-item fee, the Reserve Banks project that revenue will decline approximately \$0.4 million, or 17.7 percent, in 2001, because of a projected volume decline of 20.9 percent. The projection is based on the recent loss of the Reserve Banks' largest depositor, which has begun to process its own volume, and the overall industry volume decline.

New issues of bearer municipal securities effectively ceased in 1983 when the Tax Equity and Fiscal Responsibility Act of 1982 removed the tax advantage for investors. Volume declines will continue as the number of unmatured bearer municipal securities declines. The Reserve Banks' Cash Fiscal Product Office estimates that in a few years, the steadily declining number of bearer securities will make full cost recovery in this service unlikely. Staff is working with the Reserve Banks to determine the long-term strategy for this service.

**FEDERAL RESERVE  
NONCASH COLLECTION FEE SCHEDULE**

**EFFECTIVE JANUARY 2, 2001**

Coupon collection:	<u>Fees</u>
Cash letters:	
with five or fewer coupon envelopes	\$7.50
with six to fifty coupon envelopes	\$15.00
Coupon envelopes:	
with five or fewer coupon envelopes	\$4.75
with six to fifty coupon envelopes	\$2.50
Return items	<b>\$20.00</b>
 Bond collection (per bond):	 \$40.00 <sup>1</sup>

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<sup>1</sup> Plus actual shipping costs.

## Attachment VI

### Special Cash

Priced special cash services represent a very small portion (less than one percent) of overall cash services provided by the Reserve Banks to depository institutions. Special cash services include wrapped coin, packaging of nonstandard currency orders and deposits as well as coin deposits, and registered mail shipments of currency and coin. Table 1 presents the actual 1999, estimated 2000, and projected 2001 cost-recovery performance for the special cash service.

Table 1

<b>Special Cash <i>Pro Forma</i> Cost and Revenue Performance</b> (\$ millions)					
YEAR	1 REVENUE	2 TOTAL EXPENSE	3 NET INCOME (ROE) (1-2)	4 TARGET ROE	5 RECOVERY RATE AFTER TARGET ROE [1/(2+4)]
1999	3.0	2.9	0.2	0.0	103.8
2000 (Estimate)	2.2	2.1	0.2	0.1	103.4
2001(Budget)	1.8	1.7	0.1	0.1	100.6

**1999 Performance** — In 1999, the special cash service recovered 103.8 percent of total expenses, including imputed expenses and targeted ROE, compared with a targeted recovery rate of 105.8 percent.

**2000 Performance** — Through August 2000, the special cash service recovered 99.3 percent of total expenses, including imputed expenses and targeted ROE. For full-year 2000 the Reserve Banks estimate, however, that the special cash service will recover 103.4 percent of total expenses, compared with a targeted recovery rate of 101.6 percent. Revenue is estimated to decrease approximately \$.8 million, or 26.1 percent, and total costs are estimated to decrease slightly more than \$.8 million, or 28.9 percent, in 2000 compared with 1999. The estimated revenue and cost decreases are due mainly to the elimination of the wrapped coin business in Cleveland and of the registered mail business in the Dallas and San Francisco Districts.



**2001 Pricing** — For 2001, the Reserve Banks project that the special cash service will recover 100.6 percent of costs, including imputed expenses and targeted ROE. Total costs in 2001 are projected to decline \$.3 million, or 15.4 percent, from the 2000 level. Revenue in 2001 is expected to decline \$.4 million, or 18.3 percent.

The anticipated revenue and cost reductions are due primarily to the full-year effects of the Fourth District's decision to exit the coin-wrapping business in April 2000 and the Eleventh and Twelfth Districts' decisions to exit the registered mail business in late August 2000.

Beginning in 2001, the El Paso office proposes to increase the fee for Express Cash Orders from \$60.00 to \$80.00. Boston proposes to increase the surcharge for registered mail from \$30 to \$45 and decrease the insurance fee from \$.80 to \$.50 per \$1,000 in excess of the first \$25,000. The Tenth District proposes to increase the surcharge for registered mail from \$13 to \$16 and the insurance fee from \$.27 to \$.32.

**FEDERAL RESERVE  
SPECIAL CASH SERVICES FEE SCHEDULE**

**EFFECTIVE JANUARY 2, 2001**

	<u><b>Fee</b></u>
Wrapped Coin (per box <sup>1</sup> )	
All Fourth District offices.....	<b>Discontinued April 2000</b>
Helena.....	\$2.25
Nonstandard Packaging	
Seventh District Offices	
(per currency order or deposit).....	\$12.00 <sup>2</sup>
Helena (per coin bag deposited).....	\$2.00
El Paso (Express Cash Orders).....	<b>\$80.00<sup>3</sup></b>
Registered Mail Fees <sup>4</sup>	
	<u><b>Surcharge</b></u> <u><b>Insurance Fee<sup>5</sup></b></u>
First District.....	<b>\$45.00</b> ..... <b>\$0.50</b>
Helena <sup>6</sup> .....	\$14.00
Tenth District Offices.....	<b>\$16.00</b> ..... <b>\$0.32</b>
El Paso.....	<b>Discontinued August 2000</b>
Twelfth District Offices.....	<b>Discontinued August 2000</b>

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<sup>1</sup> There are 50 rolls of coin in each box.

<sup>2</sup> This service only applies to the \$1 through \$20 denominations.

<sup>3</sup> El Paso's Express Cash Order fee applies only to orders that need to be prepared on the same day as notice is received from depository institutions.

<sup>4</sup> Depository institutions also pay any postage fees incurred for registered mail. Postage fees are billed separately from Federal Reserve Bank surcharges and insurance fees.

<sup>5</sup> Insurance fees are based on every \$1,000 shipped via the registered mail service in excess of the first \$25,000, which is covered by the U.S. Postal Service.

<sup>6</sup> The Helena Office only ships registered mail packages valued up to \$25,000, so no additional insurance is needed in excess of the \$25,000 covered by the U.S. Postal Service.

**Attachment VII**  
**FEDERAL RESERVE**  
**ELECTRONIC CONNECTION FEE SCHEDULE<sup>1</sup>**  
**EFFECTIVE JANUARY 2, 2001**

The Reserve Banks charge fees for the electronic connections used by depository institutions to access priced services and allocate cost and revenue associated with electronic access to the various priced services.

Current FEDNET Network:

Dial – receive and send (FedLine®)	\$75.00 per month
Link encrypted dial	\$200.00 per month
High-speed dial @ 56 kbps	\$350.00 per month
Multi-drop leased line	<b>\$500.00 per month</b>
Dedicated leased line (to 9.6 kbps)	\$750.00 per month
High-speed leased line @ 19.2 kbps	\$850.00 per month
High-speed leased line @ 56 kbps	\$1,000.00 per month
High-speed leased line @ 128 kbps	\$1,800.00 per month
High-speed leased line @ 256 kbps	\$2,000.00 per month
Cross-District	Actual cost <sup>2</sup>

Frame Relay Network:

Frame Relay-Fedline @ up to 19.2 kbps <sup>3</sup>	<b>\$500.00 per month</b>
Frame Relay-Computer Interface (CI) @ 56 kbps	\$1,000.00 per month
Frame Relay-CI @ 256 kbps	\$2,000.00 per month
Frame Relay-CI T1	\$2,500.00 per month

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<sup>1</sup> Installation, training, contingency hardware, and software certification are not considered priced services, and the fees for these services are not listed here. For a copy of the full electronic access fee schedule, contact the local Federal Reserve Bank.

<sup>2</sup> The customer will pay the actual costs of the circuit and a monthly surcharge to cover an equitable share of expenses associated with customer support, depreciation of hardware (that is, link encryption units), and other overhead expenses. This fee must be, at a minimum, equivalent to the standard fee for the particular type of leased line connection.

<sup>3</sup> The Frame Relay FedLine 19.2 kbps connection is identical to the Frame Relay 56 kbps connection except for the following: (a) redundant equipment is not included with the 19.2 kbps option; and (b) the speed limitation of 19.2 kbps is imposed by FedLine. This connection is otherwise capable of operating at 56 kbps.

Test and Contingency Options<sup>4</sup>:

CONNECTION TYPE	LOGICAL SPLIT	FULL CIRCUIT BACKUP	FRAME CONNECTION ONLY	REDUNDANT COMPONENTS
Fedline @ up to 19.2 kbps	No charge	\$500	\$420	N/A
CI @ 56 kbps	No charge	\$845	\$765	\$155
CI @ 256 kbps	No charge	\$1,750	\$1,585	\$250
CI T1	No charge	\$2,230	\$2,010	\$270

Logical split: Applies to production and test systems that are located together at the same facility. The institution could use the production equipment with a logical split (different port) in their router as a test or contingency facility. There is no additional cost for this option.

Full circuit backup: Applies to production and test systems, or production and contingency systems, that are located at separate facilities, including another bank office or a third-party contingency site.<sup>5</sup> This option replicates full production technology and costs; only one set of equipment components is provided.

Frame connection only: Applies to production and test systems, or production and contingency systems, that are located at separate facilities. The institution uses a frame relay link connection with no ISDN dial-up backup. Only one set of equipment components is provided.<sup>6</sup>

Redundant components: Includes a Cisco router, CSU/DSU, encryptor and rack.<sup>7</sup>

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<sup>4</sup> Test and contingency options, including redundant parts, are only available to customers with a primary connection.

<sup>5</sup> Prices shown are for Full Circuit Backup only located at the customer site. Multiple customers sharing a single disaster recovery connection at a third-party provider will result in custom implementations. Districts will bill the vendor's bank for the contingency circuit.

<sup>6</sup> Prices shown are for Frame Connection only located at the customer site. Multiple customers sharing a single disaster recovery connection at a third-party provider will result in custom implementations. Districts will bill the vendor's bank for the contingency circuit.

<sup>7</sup> Redundant components are available only for the following connections: CI 56 kbps, CI 256 kbps, and CI T1. Customers with FedLine 19.2 kbps connections that require redundant equipment will be obliged to upgrade their connection to CI 56 kbps.